The MORTGAGE BANKER

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John C. Thompson Is New MBA President

MBA's new 1947-48 administration, headed by JOHN C. THOMPSON of Newark, N. J., has taken over the reins of office. Thompson succeeds GUY T. O. HOLLYDAY of Baltimore.

John C. Thompson

Aksel Nielsen

AKSEL NIELSEN, president of The Title Guaranty Company of Denver was elected vice president. Their names headed the list of nominees submitted at our annual business meeting by R. O. DEMING, JR., of Oswego, Kan., chairman of the nominating committee. Other members of the committee were EDWARD F. LAMBRECHT, Detroit; G. CALVERT BOWIE, Washington, D. C., and W. WALTER WILLIAMS of Seattle.

Regional vice presidents for the twelve districts for the 1947-48 term as previously announced, are: C. ARMEL NUTTER, Camden, N. J.; JAMES W. ROUSE, Baltimore, Md.; CLYDE W. KISTLER, Miami; HOWARD S. BISSELL, Cleveland; O. G. GRESHAM, Birmingham; CHARLES H. CHRISTEL, St. Louis; HUBERT R. HAEUSSLER, Detroit; EARL LINN, Des Moines; HOWARD B. MOFFITT, Oklahoma City; ALLYN R. CLINE, Houston; GEORGE W. ELKINS, Beverly Hills, Calif.; and W. ROBERT MCMURRAY, Portland, Ore.

Was 1947 Convention MBA's Best? Many Members Seem to Think That It Was

What a difference a decade makes—in MBA convention attendance, that is. Back in 1937 when the Association met at Hotel Cleveland we had a registration of 735 and non-members were welcome then—in fact, MBA was on the alert in its promotion efforts to round up as many registrations as it could.

Ten years later we got together at Hotel Statler in Cleveland and, after totaling up the registrations, found that 1186 were there. Non-members were strictly excluded—at least, that was our honest intention but in the opening rush it seems some did register. We used no promotion at all, of course, because it was a question of being able to house those who wanted to come rather than beat the bushes to get people there.

The 1947 Cleveland Convention seems to have been one of the very best MBA has sponsored. That statement is based on reports the national office has received and we hope it's a fair one.

The outstanding feature of the Convention was its emphasis on practical, every-day problems of immediate concern to mortgage lenders and investors. It turned out just that way—a working Convention in every sense. (An exhibitor representing one of America's biggest companies said he'd never seen sessions better attended—and he catches a lot of Conventions.)

We believe there was more "meat" in the three days sessions for the man in the mortgage business than he ever got before or could hope to get anywhere else. In previous post-Convention issues of this deathless chronicle of events, we've usually reviewed the speeches but not this time. On page 6, we've included a few quotes from our guest speakers and one or two members' contributions but haven't gone beyond that because we want you to read the entire proceedings of the panel discussions. Only in that way will you get the full benefit of the many ideas, suggestions and thoughts that were expressed October 2, 3 and 4 in the Statler ballrooms. Transcripts of some of the sessions, such as the Clarke lecture, are in the works now and you'll be reading them before the Year Book is published.

This year's plan of annual meeting was GUY T. O. HOLLYDAY's idea with able assists from W. A. CLARKE in Philadelphia, to whom Mr. Hollyday acknowledged his debt at the Saturday banquet. It looks as though we learned a good deal at the Cleveland meetings, things that are going to be useful in the years ahead.

Browsing through the registration lists—there were three of them, one in the program and two mimeographed supplements—it seems members got

(Continued next page)

Elected to positions on the board of governors were: CLIFFORD V. MILLER, Brookline, Mass., for the vacancy for term ending 1948. For terms ending in 1951 members elected were L. DOUGLAS MEREDITH, Montpelier, Vt.; WALLACE W. TRUE, New York; E. H. GROOTEMAAT, Milwaukee; G. CALVERT BOWIE, Washington, D. C.; WALLACE MOIR, Beverly Hills, Calif.; NORMAN R. LLOYD, Cleveland; and KENNETH J. MORFORD, Seattle.

SPECIAL 1947 CONVENTION ISSUE

to Cleveland from practically every state in the Union and from every city of any size and from beyond our continental borders as well.

The lists showed G. C. ELLIOTT and W. A. JOYCE of the Great-West Life Assurance Company, Winnipeg; R. E. WOODCOCK, Canada Life Assurance Co., Toronto; CHARLES E. REA, Occidental Life Insurance Company of California, Toronto; and GEORGE L. CAMPBELL, Sun Life of Canada, Montreal. HORACE E. DAVILA, of the Santurce Bank and Trust Company of Santurce, Porto Rico was also registered — first time anyone from this island has been with us. Come again, Mr. Davila. Someone was supposed to show from Cuba but we didn't see him.

Our group stayed together more than in previous years. We found them registered in only about ten hotels, principally in four of these. Usually in recent years they scattered around at as many as 30 hotels.

Committees Are Named by Pres. Thompson

One of the first official acts of PRESIDENT JOHN C. THOMPSON was to announce his committee assignments for the 1947-48 year. They include:

EXECUTIVE COMMITTEE: Aksel Nielsen, chairman, and John C. Thompson, S. M. Waters, C. A. Mullenix, G. Calvert Bowie, Milton T. MacDonald, Aubrey M. Costa, Norman H. Nelson and Edward J. Lambrecht.

FINANCE COMMITTEE: William L. King, chairman, and Paul J. Vollmar and Stanley Trezevant.

MEMBERSHIP COMMITTEE: Milton MacDonald, chairman, and all regional vice presidents.

MEMBERSHIP QUALIFICATIONS COMMITTEE: Norman R. Lloyd, chairman, and Howard Moffit and O. L. Reider.

CLINIC COMMITTEE: Earl Linn, chairman, and J. W. Swan, Thomas E. Colleton and Edgar N. Greenebaum.

POLICY COMMITTEE: Guy T. O. Hollyday, chairman, and Dean R. Hill and Herold Woodruff.

FHA COMMITTEE: Elmer Grootemaat, chairman, and T. J. Bettes, E. R. Haley, W. E. Miller, Fred C. Smith, William G. Nelson, H. J. Mendon, George Underwood, J. R. Jones, William A. Clarke and K. P. Wood, Jr.

WAYS AND MEANS COMMITTEE: S. M. Waters, chairman, and Frank J. Mills and Wallace Moir.

EDUCATIONAL COMMITTEE: Norman H. Nelson, co-chairman, Robert Goldsby, co-chairman, and W. L. Church, Thomas E. Lovejoy, W. R. Bryant, Thomas J. Purcell, Robert H. Pease and W. L. Leighly.

RESOLUTIONS COMMITTEE: Hiram S. Cody, chairman, and Byron T. Shutz and W. Walter Williams.

FEDERAL LEGISLATIVE COMMITTEE: James W. Rouse, chairman, Hubert R. Haeussler, A. H. Cadwallader, Frank Bell and L. Douglas Meredith.

G-I COMMITTEE: N. N. Wolfsohn, chairman, Neil W. Hall, William H. Jaffke, T. A. Robinson, Jr., Kenneth J. Morford, George De Franceaux.

Is Mortgage Lenders' Responsibility to Make 100% G. I. Loans, Says Resolution

Among the various resolutions adopted at the Cleveland Convention, one concerned the mortgage business in the immediate future.

MBA will actively support making 100 per cent no-down-payment mortgage loans to veterans, according to this resolution which said "it is the responsibility of mortgage lenders throughout the United States to implement the veterans' home loan program by making such loans without down payment." It was adopted at our annual meeting.

In a statement, PRESIDENT THOMPSON declared that the mortgage industry, during the next several years, faces the most active period it has ever known and that "there are unlimited funds to provide the financing for veterans on terms which are lower than ever before.

"But many veterans have been ill-advised and have purchased homes at excessive prices requiring payments which, in many cases, seriously handicapped them in providing for other family needs."

Thompson said the Association would join with other organizations interested in veterans' welfare, in a renewed effort to speed up construction and cut costs.

"Housing costs are unnecessarily high," Thompson said. "They result from constantly increasing costs of materials and labor costs but also from the necessity of adhering to the outmoded construction codes in most American municipalities."

He said MBA is convinced that private industry is in a position now to provide all necessary housing, if a reasonable pre-determined income can be estimated upon costs of construction.

Our resolution supporting 100 per cent no-down-payment loans said that the entire G. I. loan program was designed by Congress to permit veterans with limited funds to purchase homes, and was expected to act as the bridge between the amount which may be soundly loaned on a home and the amount a veteran needs to purchase it.

The resolution, however, cautioned that sound mortgage lending requires that the money a lender risks must represent an acceptable ratio to the long-term value, that the borrower demonstrate ability to repay, that the purchase price—in light of prevailing conditions—be reasonably appropriate to his needs, and that he understands and accepts the responsibilities of his long-term obligation.

"A cash down payment by the borrower, however, is not in itself a legitimate substitute for any of these, but if these conditions are met, veterans' loans can be soundly made without cash down payments."

Convention Attendance 1937-1947

1937—	735	Cleveland.
1938—	1217	Chicago.
1939—	808	Detroit.
1940—	1101	Chicago.
1941—	770	New York.
1942—	608	Chicago.
1943—	695	Chicago.
1944—	969	Chicago.
1945—	940	New York.
1946—	1080	Cincinnati.
1947—	1186	Cleveland.

Our Appraisal Contest Unearths a Wide Range of Ideas About Present-Day Value

The old adage that "appraising is not an exact science" had some life breathed into at the appraisal contest the last day of our Convention. When they registered, members received data about the C. A. C. Building across the street from Hotel Statler and were asked to go there, make an inspection and then submit their appraisal for loaning purposes.

They did all right — exactly 75 of them. The high appraisal was $2,840,000 and the low was $777,800. The wide range between the two raised an eyebrow or two.

The winner was J. S. PROUTY of the Western & Southern Life Insurance Company, Chicago. He won because his figure of $1,450,000 was closest to that agreed upon by the board of experts who decided upon a figure of $1,425,000. And the experts, incidentally, were not the same that were shown in the program. WARREN L. MORRIS and JOSEPH LARONGE, both of Cleveland, were unavailable at the last moment and their places were taken by ROBERT ARMSTRONG of Armstrong Associates, New York (who attended the Convention with ART CODY of the American Institute of Real Estate Appraisers) and ROBERT L. FREE of Rudolph & Free, Cleveland. JOHN C. TREDWELL, New York, president, American Institute of Real Estate Appraisers, conducted the contest and appraisal session.

The three runners-up were F. C. DEVLIN, Acacia Mutual Life Insurance Company, Washington, D. C., with $1,475,000; K. D. HALL, The Monarch Investment Company, Wichita, with $1,375,000; and JAY I. KISLAK, J. I. Kislak, Inc., Jersey City, with $1,375,000.

Honorable mentions went to HARLE BISHOP, FALLON O'LEARY, PAUL BAUER, A. B. KURRUS, R. D. BURROWS, C. W. McELVAIN, J. K. LYONS, S. R. KINSELLA, W. T. RATLIFF, H. C. SMITH and PAUL P. SWETT.

The woman who came closest to the experts' appraisal was CHRISTINE M. BURLINGAME — and don't think she wasn't closer than a lot of the men. She was.

J. P. ELLIS, JR. of Life & Casualty Insurance Company of Nashville, won't know it until he reads this—if he does—but he came within an inch of being declared the winner. If you're not too demanding a person, the incident was a little on the dramatic side. Picture this: a stuffy ballroom and a stuffier foyer outside where the board of experts had gathered to make a last minute comparison of notes before mounting the rostrum for the appraisal session. It had taken considerable time to study the 75 submissions which had been written on long sheets of paper, the figures opposite the names, with lines drawn to show which went with which.

The winning appraisal of $1,450,000 *seemed* to be opposite Ellis' name until one sharp-eyed expert saw differently. That was when Prouty emerged the winner—with Ellis out of the running. But Ellis hit it pretty close—$1,500,000. Prouty's win seemed more remarkable when it became known that he isn't an appraiser but an attorney with the Chicago office of Western & Southern. But he has a good idea of value—which is what counts.

Robert Armstrong had the group's attention when he said:

"Some of you gentlemen may have noticed in this morning's papers that Queen Wilhelmina of Holland had quit. Reason given: ill health. Well, after reading your appraisals of a building last night, I feel I ought to quit—but far be it from me to say what you should do. Let your conscience be your guide. I sort of wonder at times what does a mortgage banker need most—a conscience or a guide?

"But to be serious, the problems of today are terriffic. To look into the future—to make a loan, or to appraise—and we all must do that—should be the job of a seer, or a prophet, or perhaps a swami or a crystal ball gazer. But somehow, in some fashion, we must arrive at values which reflect not only the short-run but the long-run as well.

"The problems of valuation have indeed been difficult enough to date, but they certainly have become more confused by the policies which some life insurance companies have adopted during the past year or so. When you capitalize the rent of one property say at 3½ per cent, and another structure which may or may not be across the street but which is exactly similar at 7 per cent, you create differences in value which are 100 per cent apart. These differences in value have not been created by differences in real estate—they have been created by the

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The board of appraisal experts just before they ascended the rostrum to conduct this session and announce the contest winner. Left to right: Robert L. Free, Rudolph & Free, Cleveland; John C. Tredwell, president, American Institute of Real Estate Appraisers, New York; and Robert Armstrong, Armstrong Associates, New York.

Tells MBA Farm Men Export Significance

What farmers face in the way of sharply lower prices for their products if their export markets shrink drastically was told to our farm members at their Thursday luncheon.

WALTER B. GARVER, agricultural economist of the Federal Reserve Bank of Chicago, said that during the years between wars, when agricultural exports were only a fraction of what they are today, a change of a billion dollars in exports meant a change of more than $1½ billion in cash farm income.

He predicted that now, in the light of recent and current prices and the tight domestic supply, a similar percentage decline in exports might carry a decline in prices twice as great.

Based on the record-breaking exports from this country in the first half of 1947, exports this year are running at the annual rate of around $16 billion which compares with exports of two to four billion dollars during most of the between-war years, he said. During the between-war years, agricultural exports have accounted for from 20 to 40 per cent of the total.

The importance of the export markets to this country is further emphasized by the fact that upwards of 3½ million of the 60 million people employed are producing directly or indirectly for export.

B. G. HARRISON, vice president of the Franklin Life Insurance Company, Springfield, Illinois, and chairman of MBA's 1946-47 farm mortgage committee, presided.

Those attending the farm luncheon were:

L. E. Gilbert, Northwestern Mortgage Company, Minneapolis.

E. B. Drake, Bankers Life Insurance Company of Nebraska, Lincoln.

T. A. Murphy, Lincoln National Life Insurance Company, Fort Wayne, Ind.

F. C. Waples, Midland Mortgage Company, Cedar Rapids, Ia.

T. S. Burnett, Pacific Mutual Life Insurance Company, Los Angeles.

R. D. Burrows, Security-First National Bank of Los Angeles.

Eliot O. Waples, Midland Mortgage Company, Cedar Rapids, Ia.

E. A. Covington, Union Trust Company, Nashville.

Hugh J. Bradley, Union Trust Company, Nashville.

Harold R. Fischer, First Granite City National Bank, Granite City, Ill.

Edgar A. Barlow, Morton G. Thalhimer, Inc., Richmond.

Homer V. Cruise, Jr., Cruise & Company, Inc., Jackson, Miss.

Kenneth E. Smalley, Manufacturers and Traders Trust Co., Buffalo.

Walter Sheperd, Home Mortgage, Inc., Charleston, West Va.

George V. Scott, Lawyers Title Insurance Corporation, Richmond.

H. C. Pool, Pool Insurance Agency, Chickasha, Okla.

C. R. Welch, Fort Wayne Securities Corp., Fort Wayne, Ind.

J. J. Fehr, Northwestern Mortgage Company, Minneapolis.

Franklin D. Richards, Utah Mortgage Loan Corporation, Logan, Utah.

L. Rohe Walter, The Flintkote Company, New York.

Noah F. Brownfield, Commercial Securities Company, Gary, Ind.

Noble S. Beasley, Samuel C. Ennis & Co., Hammond, Ind.

George D. Goodnight, Peoples Life Insurance Co., Frankfort, Ind.

Walter F. MacPherson, MacPherson & Co., Gary, Ind.

H. Martin Tenney, Connecticut Mutual Life Insurance Co., Hartford.

Richard L. Nelson, Real Estate Research Corp., Chicago.

A. S. Love, Edward K. Love Realty Company, St. Louis.

Roy C. Johnson, Albright Title & Trust Company, Newkirk, Okla.

Jack D. Merriman, Merriman Mortgage Company, Kansas City, Mo.

Deane Trick, Doane Agricultural Service, Inc., Des Moines, Ia.

Joe Jack Merriman, Merriman Mortgage Company, Kansas City, Mo.

Chester R. Martin, Industrial Trust Company, Providence, R. I.

William F. Andrews, Industrial Trust Company, Providence, R. I.

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Joseph M. Miller Named Grand Marshal of Legion; W. L. King Is Named Secretary

JOSEPH M. MILLER, president, Miller Mortgage Company, New Orleans, was elected grand marshal of the Mortgage Bankers Legion at the organization's annual dinner Wednesday evening preceding the Convention opening. He succeeds G. CALVERT BOWIE of Washington, D. C. W. L. KING of Washington was elected secretary.

Joseph Miller

W. L. King

Three new members were elected, NORMAN R. LLOYD, Cleveland, WALLACE MOIR, Los Angeles, and AKSEL NIELSEN, Denver. Membership eligibility is based upon one term's service as a member of the board of governors.

GUY T. O. HOLLYDAY, Baltimore, JOHN SCOTT, Pittsburgh, and S. M. WATERS, Minneapolis, were named as a committee to revise the Legion's bylaws.

There were clouded eyes and audible sniffling in the room when Grand Marshal Bowie asked for a moment's silence as a tribute to the two departed members of the Legion who had passed away since the last meeting in Cincinnati, L. E. MAHAN, St. Louis, and ALPHA A. ZINN, Indianapolis. Both were former presidents of MBA and Mr. Mahan was the founder of the Legion. The observation was made that Mr. Mahan would have been deeply gratified if he could have seen the large attendance at the annual meeting and the continued enthusiasm of its members for the organization.

Speaker was STRICKLAND GILLILAN of Washington, humorist of the Will Rogers type. He made an amusing dissertation on subjects ranging from federal bureaucracy to women's styles. His comments on the mortgage business was to the effect that he had "a mortgage once. Then I got my arm broken, settled with the Burlington Railroad for $1,000 and paid it off."

APPRAISAL CONTESTANTS

(Continued from page 3)

differences in the credit ratings of tenants."

Just for the record, here's the list of those who entered submissions and it's worth knowing that an awful lot of them weren't too far away from the winning figure:

Harie Bishop, Harvey Handford, Fallon O'Leary, J. P. Ellis, Jr., J. S. Prouty, C. H. Keeling, W. L. Bramble, F. C. Devlin, J. Dudley Johnson, C. C. Nuedling

G. M. Burlingame, Andrew Croal, K. D. Hall, Paul Bauer, M. S. Cook, A. B. Kurrus, R. D. Burrows, Joseph M. Hisley, C. A. McElvain, J. K. Lyons

T. R. Richardson, Wm. J. Byrne, L. E. Gilbert, Mrs. Helen Shapiro, Chas. Christel, Walter F. MacPherson, G. F. Newman, Robert E. Sheehan, Grover Godwin, Stuart Micklethwaite.

Robert B. Montgomery, William Barts, Henry E. Ryder, Hubert T. Thomas, W. F. Andrews, Wm. J. Netherton, Hunter Moss, N. S. Noble, Jr., W. C. Denmead, Lamar Wright

Victor D. Hallauer, Lou Maginn, E. W. Salisbury, William O. Cowger, George O. Fetters, S. R. Kinsella, W. T. Ratliff, Mrs. M. F. Townsend, John B. Waltz, H. C. Smith

Thomas J. Purcell, Edgar Greenebaum, Stephen Cohn, Paul P. Swett, M. F. Townsend, J. G. Hestwood, David Bloom, Christine M. Burlingame, Edw. P. Seaton, George H. Dovenmeuhle

James W. Rouse, Fletcher Seymour, Oscar Onstad, W. I. Christopher, Wm. J. Hoppe, D. Shoemaker, Jr., Jay I. Kislak, C. W. Kistler, William H. Jaffke, Joe Fowler

R. J. Clark, K. J. Deimling, William Shapiro, Roswell S. Buck, R. M. Christian

HEARD AND SEEN IN CLEVELAND

The air age in MBA seems to have arrived. T. J. BETTES of Houston, with a party of seven, arrived in Mr. Bettes' own plane after a pre-convention trip to his home town, Grand Rapids . . . and PHIL VAN METER of Wichita came in his own Beechcraft with R. O. DEMING, JR., Oswego, Kan., as a passenger . . . and speaking of transportation outside the ordinary, about twenty of the Paramount Fire Insurance people boarded their own special car Saturday night for the trip to new York. . . .

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Cleveland hotels had about all the people they could handle during the Convention . . . we heard of an unusual case of split reservations . . . two couples, the men at one hotel and their wives at another. . . .

★

The Convention was a little more costly for one man than he had anticipated . . . SANFORD TAYLOR of Stran Steel division, Great Lakes Steel Corp., one of our exhibitors, lost $135 in bills in the Ballroom Foyer and didn't get it back. . . .

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That survey WALLACE MOIR mentioned in his talk on profit sharing is Senate Report No. 610 which he recommends as a valuable guide to all mortgage men looking into the profit sharing idea . . . Moir said that when he began his study of profit sharing months ago in preparation for his Convention assignment, he started with the Karl Marx works, to get right at the bottom to see if communism has anything to offer workers . . . his little daughter kept asking him if he was "going communist" and if he was, she was leaving . . . be sure and read Moir's paper and absorb some mighty good arguments. . . .

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Memories of an evening: Few evening events which MBA has scheduled in its 34 conventions of the past seem to have met with such unreserved approval as the Friday night interlude . . . Over 600 gathered in the Ballroom for an evening of dancing, a good dinner and an excellent show to which members can give full credit to NORMAN R. LLOYD, president, Allied Mortgages, Inc., and our Cleveland Convention chairman, and the show's producer, CLINT NOBLE.

It was an evening of hilarious fun listening to such things as "Who gave the bride away? No one, we all kept our mouths shut."

1948 CONVENTION

It's at Hotel Commodore in New York, Wednesday, Thursday and Friday (the three days members like best) September 22, 23 and 24, 1948.

Our keen-eyed observer couldn't get through the crowd to get the name of the member who played the stooge for the master of ceremonies but that was L. G. PFEFFERKORN of Winston-Salem, N. C. (appropriately from the tobacco country) who was in on the cigarette act . . . and somewhere just about that point, we heard the names of STANLEY TREZEVANT of Memphis and W. B. PHILIPS of Birmingham mentioned . . . in what connection escapes our memory now.

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The Case of the Broken Knee

The "lead" (i.e., the start) of the story which the staff correspondent of the *Newark Evening News,* JOHN W. KEMPSON, sent to his paper on the election of JOHN C. THOMPSON of Newark was to the effect that a local Jerseyman was literally "wheeled" into office.

What happened wasn't quite as pathetic as that sounds but literally true nevertheless. Shortly before the Convention opening, President Thompson was visiting his brother in Providence, R. I. and was in an automobile accident which broke his knee. For a time he despaired of being able to make the Cleveland meeting at all. Finally on Tuesday his doctors gave in and he arrived in a wheelchair Thursday morning with Mrs. Thompson, his capable secretary and his right hand man, JAMES J. MCCARTHY, vice president and secretary of his Company. President Thompson paid them all a well-deserved tribute at the banquet Saturday night for their patience and care in making his trip possible.

Latest report is that he will have his leg cast removed very shortly and that in another two weeks he will be as good as new.

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Strange to say, we had more speaker casualties at Cleveland than we've had in the last six or seven years put together. Our program scheduled addresses by RICHARD C. CADWALLADER, American Legion, MAYOR THOMAS A. BURKE of Cleveland, WALTER L. COHRS, First National Bank of Chicago, and JOSEPH LARONGE and WARREN L. MORRIS of Cleveland but all were prevented from appearing because of illness or unavoidable circumstances.

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There was a meeting at the Cleveland Convention in the Tavern Room of which few MBA members were aware. . . . It was for trustees of the National Association of Real Estate Editors of which COL. H. H. BURDICK of the *Detroit Free Press* is president and JAMES K. CHANDLER of the *Cleveland Press* is secretary and treasurer. Both covered the Convention. Others were PAT DENNIS, *Detroit Times;* JOHN W. KEMPSON, *Newark Evening News;* E. A. BAUMGARTH, *Detroit News,* and O. T. BERG, *Realty and Building,* Chicago.

Other newspaper men at the Convention included STEVENS MERENA, *Real Estate News,* Chicago; ADEN RIDER, *Cleveland Plaindealer;* DON COENEN, *Realty and Building,* Chicago, and JACK J. WYSE, publisher, *Properties Magazine,* Cleveland.

This is a good bunch of people who MBA wants to know better. . . .

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JOSEPH M. MILLER, new Grand Marshal of the Legion, brought a breath of old New Orleans with him for that group's annual dinner. He gave members miniature bottles of sazerac, a famous New Orleans origination.

WHAT THEY SAID IN CLEVELAND

RICHARD C. CADWALLADER, chairman of the national housing committee of the American Legion (whose paper was read by Don White, committee secretary, who drove all night from Indianapolis to reach the Convention in time for Cadwallader's scheduled appearance): "It is an absolute necessity that mortgage bankers and other financial institutions assume a far larger role for housing results than they have in the past. Far too often the mortgagees merely sit back and wait for applicants seeking loans to come to their doors. If persisted in, this will be a tremendous stimulus to government intervention in housing.

"The money lenders of the nation must become more active and aggressive in the development and planning of better housing and business communities to serve them. Your interests must become broader. I hope that you will interest yourself in mutual and other low rent projects. There is a splendid opportunity for you to assist veterans' groups to acquire the public housing units being offered for sale by the federal government."

* * *

WALLACE MOIR, member of MBA's board, Los Angeles: "A profit-sharing plan is in harmony with the spirit and letter of our Constitution. It is just, it is in the public interest, and infinitely better than the systems which would not aid but would eventually degrade the people they so valiantly profess to champion. This is not to say that no improvements can be made in business. There are many, they are serious, they are yet to be solved; but it is our job to know what they are and to solve them with wisdom and economy, and with consideration for our fellow man.

"If our hard-won democracy is in danger, it is largely because of continuing economic ills. Our system of business is essentially a profit system. If as a system it cannot make profits, then it will fail as a system. If it cannot create and stabilize employment it will fail. If it cannot reasonably distribute the fruits of the system it will fail. A profit-sharing plan is an incentive to all to make profits. It tends to stabilize employment and distribute the fruits of enterprise.

"Communism is a crusade. Hence it is a crusade against business—including the mortgage business. To defeat a crusade without a better crusade is an impossibility. The only thing that will enable our present system of government to prevail and our present system of business to evolve into better systems of business is Christianity, on which our country was founded and on which it now professes to rest."

* * *

AKSEL NIELSEN, MBA vice president, Denver: "Most profit-sharing plans being tried today appear to be short sighted in that they do not provide for the long range protection of the employee and it is very probable that profit-sharing should be combined with some type of retirement assistance plan or some plan whereby, at retirement age, the employee can receive a lump sum with which he can buy part of that chicken ranch he would like to live on or use the funds to supplement the income he will receive from what he has otherwise saved or from the social security plan."

* * *

CHARLES ABRAMS, housing authority and author, New York: "The challenge that faces America in the next ten years is a crucial one. If present estimated housing needs are fulfilled, we shall be building new houses equal in number to at least half the present supply. Such a volume of housing when added to the public facilities it entails will alter the whole face of our cities. Instead of master planning and envisioning the city as we want it to be, we seem all set for the same random piecemeal, hit-and-miss sporadic development of our neighborhoods that has characterized their development in the past. The buildings and the neighborhoods we erect today with their low standards and poor workmanship will leave us with as painful an architectural hangover as ever followed an orgy of jerrybuilding. We shall regret the opportunity for generations to come. We can do something about it now before the building boom is unleashed; yet we falter."

A. J. STEWART, Urban Land Institute, and president, Citizens Fidelity Bank and Trust Company, Louisville: "It is a difficult thing today to convince an experienced operator that he should leave two-thirds to three-fourths of his building area vacant of improvements if land costs run around $1 or more per square foot.

"But it is imperative that he do so when developing these areas.

"Percentage leases are believed to be the fairest rental method for both landlord and tenant. The percentage lease arrangement might be looked upon as a form of partnership between the owner of the property on the one hand and the occupant on the other.

"Percentage leases are based upon the ability of the merchant to pay, the kind of business, the volume of business per square foot, the profit made on the merchandise, the importance of the location, absence of too much competition, and similar factors."

* * *

SEWARD H. MOTT, director, Urban Land Institute: "Short of atom bombs falling, the most stable realty values will prevail in well-established downtown retail districts and next, in central financial districts. There is real justification for believing that many of the older central business sections of our cities will be rehabilitated and have a much longer economic life than was thought possible before World War II. But the future of the twilight zones, where disintegration appears to be complete, is less certain; they will likely remain much as they are for some years to come until we have public acceptance of area-redevelopment schemes and skill to execute them."

* * *

BEN H. WOOTEN, vice president, Republic National Bank, Dallas: "The road to better government follows the path of individual responsibility and self-support. We are inclined to feel, perhaps as a result of the election last November, that we are well on the way to better government. This may or may not be true; but business did not win the election. Nothing was permanently decided. The results of the election came about because most of

BANKERS MEETING AT MORTGAGE BANKERS MEETING: The panel group (left to right, left photo) Roland A. Benge, vice president, Detroit Bank; Joseph R. Jones, vice president, Security-First National Bank of Los Angeles; Eugene M. Mortlock, director of research in mortgage and real estate finance of ABA; and O. L. Rieder, assistant vice president, Cleveland Trust Company and moderator. Right photo: Roscoe C. Leach, Bankers Trust Company, Detroit; H. R. Templeton, Cleveland Trust Company; William G. Nelson, Merchants National Bank of Chicago. Our growing list of bank members insured a good attendance.

our people were very tired of wartime controls.

"Business does now appear to have a more favorable audience in Washington which, of course, is encouraging. We must not forget that step by step, month by month and year by year many of our people have been sold on the idea that government controls were necessary to the economic life of the nation. As a result, many good Americans firmly believe that a large percentage of our industries should be socialized, and that it is well for many businesses to operate by directives from bureaus and administrators rather than under laws and court decisions."

* * *

GUY T. O. HOLLYDAY, MBA President 1946-47: "Too many of us have spent our efforts in opposing the T-E-W Bill and its predecessors, in place of investigating and concerning ourselves with the problems that exist at our own back doors, and which are the underlying cause for this national legislation. My travels have uncovered no royal road leading to the solution of the problem that faces the vast majority of our metropolitan areas, but I have seen some progress, and a better understanding that justifies the hope for greater progress. . . . It is the duty of the mortgage lender to give his support to the upbuilding of his community through, first, a comprehensive city plan; second, through a Redevelopment Commission; and third, the formation of a Citizens Committee that will see to it that the laws of building, fire and health are enforced."

People and Events

Trustees of the Bowery Savings Bank, New York, appointed THOMAS A. DOLAN assistant vice president and ELBERT B. SCHENKEL deputy mortgage officer. Mr. Dolan formerly held the latter position and Mr. Schenkel was formerly his principal executive assistant.

Just prior to the opening of the Convention, announcement was made that AKSEL NIELSEN, newly elected MBA vice president, had been elected president of The Title Guaranty Company in Denver. He has been executive vice president of the institution for many years. It is the oldest title company in Colorado. T. WEBBER HOUSTON and CLAIR A. BACON are in the loan department of the company.

W. L. KING of Washington, D. C. represented MBA at the recent meeting of the Industrial Group of the United States Chamber of Commerce called at the request of Producers Council. Greater cooperation among all organized groups interested in housing was one of the principal themes emphasized at the meeting—and that's what plenty of people urged at Cleveland too.

Detroit MBA members recently heard W. E. POWERS, VA loan guarantee officer, and WILLIAM B. GRABENDIKE, chief VA appraiser in Detroit, talk about foreclosure procedure and appraisals . . . and Cleveland MBA members heard GREGORY PECK (not the movie star) of A. D. Fraser, Inc. speak on construction costs.

The Des Moines Mortgage Bankers Association recently completed a survey showing the number of homes under construction in the city, those already sold and those yet to be sold. The study showed the number in each price bracket. A similar check was made in May.

James W. Rouse Voted Most Valuable Member

Announcement was made at the Convention that the secret committee named by the Association's retiring president, GUY T. O. HOLLYDAY, had selected JAMES W. ROUSE, president of the Moss-Rouse Company of Baltimore, to receive the 1947 award for the most meritorious service to mortgage banking during the past year.

His selection was made for his work as chairman of the federal legislative committee.

Rouse was in the Navy from 1942 to 1945 and president of the Baltimore Mortgage Bankers Association in the former year. He resumed this position on his return from service as well as that with his own company. He was formerly an official with the Federal Housing Administration.

In and
the Conve

No. 1—Don McQuiggan, Investors Syndicate, Minneapolis; Stephen G. Cohn and Edgar N. Greenebaum, Greenebaum Investment Co., Chicago; J. R. Ridgway, Investors Syndicate, Minneapolis; K. J. Deimling, Investors Syndicate, Chicago; and Dave Treadway, Investors Syndicate, Dallas.

No. 2—W. L. King, Boss & Phelps Mortgage Co., Washington, D. C., and new Mortgage Bankers Legion secretary; Strickland Gillilan, Washington, D. C., humorist, speaker at Legion annual meeting; G. Calvert Bowie, Washington, D. C., retiring Grand Marshal of Legion; and Joseph M. Miller, Miller Mortgage Co., and new Grand Marshal.

No. 3—Aubrey M. Costa, Southern Trust & Mortgage Co., Dallas; and Byron V. Kanaley, Cooper, Kanaley & Co., Chicago, and past president of MBA.

No. 4—R. B. Hassett, Midland Mortgage Corp., Detroit; Oliver M. Walker, Walker & Dunlop, Inc., Washington, D. C.; and Charles A. Mullenix, The Mullenix Mortgage Co., and MBA past president.

No. 5—John S. Corley, Bankers Life Company, Des Moines; Stanley H. Trezevant, Stanley H. Trezevant Co., Memphis; Norman R. Lloyd, Allied Mortgages, Inc., Cleveland and chairman of the Conven-

tion Committee; and Aksel Nielsen, The Title Guaranty Company, Denver and MBA vice president.

No. 6—George W. Elkins, George W. Elkins Company, Beverly Hills, Calif.; and Silas F. Albert, Albert Mortgages, Inc., Grand Rapids.

No. 7—Neil W. Hall, The First Trust Company of Lincoln, Nebraska; and Irving J. Bjork, Connecticut General Life Insurance Company, Hartford.

No. 8—M. R. Carb, M. R. Carb Co., Ft. Worth; Stewart Morris, Stewart Title Guaranty Co., Houston; and L. K. Busch, Mortgage & Trust, Inc., Houston.

No. 9—Albert Mager, Mager Mortgage Co., Oklahoma City; Frank L. Wilkinson, Shryock Realty Company, Kansas City; and George W. Elkins, George W. Elkins Company, Beverly Hills, Calif.

No. 10—Edward L. McConnell, Central Mortgage Company, Philadelphia; and M. Gerecke, Canada Life Assurance Co., New York.

No. 11—John M. Marble, The John M. C. Marble Company, Los Angeles; Paul J. Vollmar, Western & Southern Life Insurance Company, Cincinnati; and

(Continued on following page)

MBA PLANNING EDUCATION COURSE AT N.U. IN JUNE

MBA members are being offered one of the greatest benefits a trade association membership can extend in the opportunity to enroll in the proposed educational course tentatively scheduled for the downtown Chicago campus of Northwestern University, June 21 to 26. Frank J. McCabe, director of education and research, has sent you the preliminary announcement; he is waiting for members' responses to determine the course of this educational project. Efforts are being made to have it approved by the VA so that veterans could take advantage of governmental assistance if they so desire.

The faculty will consist of men actually engaged in mortgage lending with a few exceptions. Men students will be housed at Abbott Hall, Northwestern's skyscraper dormitory on Lake Michigan. Cost of the course will be between $100 and $125.

MBA's educational committee *(shown on page 2)* has done a most professional job in planning this course. It fills a definite and vital need of the mortgage banking industry because there is not now—and has not been—anything like it anywhere else. Here is your opportunity to make a small investment in the future of your business that is sure to pay big dividends later. Let Frank McCabe hear from you at once as to how many you will send.

MBA FARM MEN

(Continued from page 4)

B. G. Harrison, Franklin Life Insurance Co., Springfield, Ill.

J. S. Corley, Bankers Life Company, Des Moines, Ia.

Robert Q. Deming, Jr., Deming Investment Company, Oswego, Kan.

S. M. Waters, M. R. Waters & Sons, Minneapolis.

Minnie W. Miller, Miller & Viele, Salt Lake City.

John M. Marble, The John M. C. Marble Company, Los Angeles.

Sam Tavalin, General Mortgage Investments, Inc., Chicago.

Wayne Harryman, United Mortgage Co., Inc., Indianapolis.

What's New in Other Associations

Some news from other mortgage bankers associations over the country:

"Housing and Redevelopment Program for Chicago" was the topic for discussion at the annual fall dinner meeting of the Chicago Mortgage Bankers Association.

Holman D. Pettibone, chairman of the Chicago Committee for Housing Action, and Milton C. Mumford, housing and redevelopment co-ordinator, discussed the program recommended by the committee.

★

J. BAYARD BOYLE, Boyle Investment Co., has been elected president of the Mortgage Bankers Association of Memphis, Inc., to succeed R. M. MARR. JAS. E. MCGEHEE, Jas. E. McGehee & Company, was named vice president and ROBERT M. METCALF, Guaranty Mortgage & Trust Company, secretary-treasurer. Mr. Marr, Leader Federal Savings & Loan Association, and D. T. KIMBROUGH, JR., Consolidated Realty Company, were named to the board of governors.

★

Formation of the Louisiana Mortgage Bankers Association, composed of mortgage banking firms in New Orleans, Baton Rouge and Shreveport, is announced.

The organization was formed at a joint meeting of the New Orleans and Baton Rouge Mortgage Bankers Associations. Shreveport was represented. This is the eighth state-wide Mortgage Association. The others are in Texas, Iowa, Illinois, Oklahoma, Nebraska, New Jersey and Utah.

The new group named W. R. MCGAW of Baton Rouge president. Other officers are N. O. THOMAS, Shreveport, vice president; ABNER NORTHROP, New Orleans, vice president, and R. B. MCCALL, Baton Rouge, secretary-treasurer.

Every city in the state will be invited to join, said W. W. BALTER. Following the session a testimonial dinner honoring LAWRENCE DUMESTRE, recently appointed state director of FHA and LEWIS LACHIN, assistant director, was given. ROBLEY GELPI, chief underwriter for FHA, was a guest.

★

JOHN C. HALL, vice president, Cobbs, Allen & Hall, was elected president of the Mortgage Bankers Association of Birmingham to succeed ALBERT L. MILLS. NELSON WEAVER, president, Hodo-Weaver Mortgage Company, Inc., was named vice president and ROBERT COTTON, Protective Life Insurance Company, was named secretary and treasurer. Installation of officers was scheduled for October 20.

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New officers of the Cincinnati Mortgage Bankers Association are: President, EVERETT R. STEVENSON; vice president, JOHN P. SLOAN, JR.; secretary, CARL ALBERTZ; treasurer, CLIFFORD T. HARVUOT; trustees, HARRIS ELLISON, HENRY BUNKER and HARRY E. NIEMEYER.

The nominating committee was made up of PAUL J. VOLLMAR, chairman; W. S. WENSEL, C. P. KENNEDY, MICHAEL AUGUSTIN and Mr. Bunker.

Joseph M. Miller, Miller Mortgage Company, New Orleans.

No. 12—Byron T. Shutz, Herbert V. Jones & Company, Kansas City, and past president of MBA; and O. G. Gresham, Gresham & Company, Birmingham.

No. 13—Edward Henry, Seely Cade & Son, Newark; Seely Cade, Jr., Seely Cade & Son, Newark; G. C. Elliott, The Great-West Life Assurance Co., Winnipeg; William J. Church, West Hudson National Bank, Harrison, N. J.; T. W. B. Hinch, also of Great-West, Winnipeg; and Seely Cade, Seely Cade & Son, Newark.

No. 14—J. E. Anderson, First Mortgage Company, Seattle; Hugh H. Gaffney and Lenox Carruth, Republic Insurance Company, Dallas; and Russell H. Perry, Republic Insurance Company, New York.

No. 15—Owen M. Murray, The Murray Investment Company, Dallas, and MBA past president; and Guy T. O. Hollyday, the Title Guarantee and Trust Company, Baltimore, and immediate past president of MBA.

No. 16—Lewis A. White, The Title Guarantee and Trust Company, Cincinnati; E. L. Carlson, The Fidelity Mutual Life Insurance Company, Philadelphia; and George H. Schmidt, Title Guarantee and Trust Company, Baltimore.

No. 17—J. G. Hestwood, Hestwood Mortgage Co., Inc., Houston; Ervin J. Brandt, Commercial Standard Insurance Company, Ft. Worth; A. C. Bryan, Provident Life and Accident Insurance Co., Chattanooga; and E. Gordon Smith, Lawyers Title of Texas, Inc., Dallas.

No. 18—A. H. Seise, Northern Illinois Mortgage Co., Rockford; Norman H. Nelson, Minnesota Mutual Life Insurance Company, St. Paul; and Owen M. Murray, Murray Investment Co., Dallas. Mr. Seise is the newest correspondent of Mr. Nelson's company with 25 months' service; Mr. Murray is Mr. Nelson's oldest correspondent with 25 years' service.

No. 19—W. L. King, Boss & Phelps Mortgage Co., Washington, D. C.; and Reginald B. Miner, John Hancock Mutual Life Insurance Company, Boston.

No. 20—Samuel E. Neel, MBA Washington counsel; James W. Collins, Tracy-Collins Trust Company, Salt Lake City; Frank J Mills, Fort Wayne National Bank, Fort Wayne, Ind.

The Trend of Corporations to Sell Their Real Estate to Institutional Investors

First of a Two-Part Article

By MARK LEVY, M.A.I.

AT THE suggestion of the editor of THE MORTGAGE BANKER, the writer has attempted to compile and present data to explain the trend of corporations and companies to sell their real estate to institutional investors, such as insurance companies, universities, and other tax-exempt institutions, and to lease the property back simultaneously. This has included a study of the various reasons for the sellers disposing of their real estate and the purchasers' reasons for making their investments. While the author has had some experience in these matters, he has concluded it would be best to present the views which have been expressed by some of the sellers and some of the buyers, and some of the brokers who have negotiated many of these transactions, rather than to deal in generalities of his own.

Mark Levy

It is an axiom that among intelligent mortgage bankers and realtors who are both discerning and inquisitive, greatest advancement is always made through pooling of experiences and ideas. There are no longer any business secrets. Mortgage bankers and realtors are constantly finding out better ways of selling, managing, financing, and appraising real estate. They are always willing to experiment. It is accepted, of course, that individual problems and requirements will enter to color the situation and determine what is the wise policy for the individual insurance company, university, or tax exempt institution, which would not necessarily be the best policy for another institutional investor.

Accordingly, the author has conferred with more than ten corporations which have sold their real estate, and with about ten universities and some forty insurance companies which have been considering this trend in financing, as well as with some of the leading realtors of the country.

This study is most respectfully dedicated with our grateful appreciation to our informants who have permitted the use of the data, and without whose cooperation this article would not have been possible. This is the true secret of progress. Some of the points brought out in their replies are set forth here, quoting directly from the informant. The identity of some of the opinions will not be disclosed for obvious reasons:

First the author has considered the reasons for transactions of this type:

Reasons given by Corporations:

1. It either results in smaller debt structure or it frees capital.

2. Working capital, with present high prices, is needed for equipment, inventory, receivables, etc.

3. Where indebtedness is eliminated, the financial structure is simplified and refunding hazards are avoided.

4. We desire to keep as small an investment as possible in fixed assets so as to have greater funds available in working capital for merchandising operations.

5. We have adopted the policy of owning our manufacturing plants but of leasing warehouse and retail locations, feeling that the difference in permanency in the two classes of property is the key to the division.

6. We think we can secure much better return through merchandising efforts than the money costs us in the present market. If, due to an advance in interest rates, the situation is reversed, our policy will be changed.

7. There is an important tax advantage on that part of the rental payment which amortizes the original investment on the part of the purchaser of the property.

8. One of the reasons is favorable financing. If we owned the property, we could only have a turnover once a year, whereas if we put our money in merchandise and inventory, we turn it over on an average of four times a year. With this money we can have larger inventories and take care of time payment accounts. While we could borrow money at the bank for less money than we pay on the real estate, that is temporary financing—whereas the other is long term financing.

9. We are in the business of retailing and not real estate.

At the Cleveland Convention, members heard W. A. CLARKE *of Philadelphia speak on "Insurance Company Purchases of Real Estate." The attention given to his lecture then and the many requests for a transcript are indicative of the wide interest in the subject.*

As a companion piece to Mr. Clarke's lecture, we are pleased to present in this issue the first of a two-part series on the trend of corporations to sell their real estate to institutional investors. The subject was suggested to Mr. Levy several months ago and he has been hard at work on it since then. A tremendous amount of time, research and correspondence have gone into it; as a result he had come up with a most exhaustive report on a subject that has great interest for everyone engaged in mortgage lending.

As he points out, he was in touch with more than ten corporations, about ten universities and some 40 insurance companies which have cooperated by supplying data. Obviously not all information supplied has been used.

In addition, he had compiled a table—the latest and most complete we've seen—showing the status in each state for insurance company purchases of real estate for investment purposes.

10. Money for expansion.

Reasons given by Institutional Investors:

1. Inventories now require a great deal more capital than they did prior to the war, and many industrial and retail establishments have expanded their operations, requiring additional working capital.

2. Insurance companies are interested because of the dearth of investments which will yield a satisfactory return.

3. One of the chief incentives which the corporations have in selling their real estate is the opportunity to claim larger deductions from income taxes than permissible to owners. The other incentive seems to be the avoidance of real estate as an asset and of mortgage indebtedness in their balance sheets. Contingent rent obligations, as you know, are not carried as a capital liability; so it helps their statement.

4. From the standpoint of the lessee, a distinct advantage is the acquisition of a satisfactory location. From the standpoint of the insurance company, the purchase of real estate properly located and leased to a satisfactory tenant represents an excellent investment for funds.

5. It may be in some instances there will be a desire to buy further properties from the proceeds of the sale of properties now owned.

6. Corporations are induced to make such sales because they presently get all the property is worth, and they may make the repayments and get credit on their income tax for same.

7. This gives corporations the type of property suitable for their business and enables them to charge present management with a comparatively high rate of rent but future management with very low cost of rental.

8. Many of the largest corporations in the country have been advised by their tax attorneys against a lease *with an option to purchase* at a greatly reduced price during or at the expiration of the lease, under the fear that the Internal Revenue Department will interpret the transaction as borrowed money wherein the title is held by the insurance company only as security for the performance and will, therefore, allow as deductions only that portion of the rent equivalent to building depreciation and interest on the declining balance.

9. Some sell in order to take capital loss, and then lease the property back at a low rate of interest, which gives them a lower rental than what they might otherwise be obliged to pay. The rate of return on the lease is usually lower than the market rate for real estate loans, and on a larger sum than what could normally be borrowed.

10. In some instances, the corporations have charged off the depreciation over a period of years, together with the land value purchased a number of years ago generally at a lower cost than the present valuation; so the purchaser secured a sound investment with a substantial equity behind it, to say nothing of the credit of the lessee.

11. Some of the sales are made at actual cost simultaneously with their purchase of the property.

In this connection, David B. Gadlow of San Francisco, a national realtor specializing in investments of this type, advised as follows:

"As you well know, Montgomery Ward, Sears Roebuck, and many other corporations, including Socony-Vacuum of New York, can borrow money through debenture financing at lower interest rates than they are paying through real estate financing by way of current sale and lease transactions. There must be reasons for this.

"Before Bullocks decided to sell the six properties to Aetna Life for \$10,000,000 the company conferred with tax counsel on the question whether it was more profitable to obtain debenture financing at about 2½ per cent interest, or through the sale of real estate at 3½ per cent interest. M. E. Arnett, vice president of Bullocks, when in New York, informed me that this counsel reported that it was more profitable tax-wise to pay 3½ per cent interest through real estate sale and lease, than through debenture financing at a lower rate. Sounds strange? But Bullocks isn't the only one that has found this to be so.

"The following is a quotation from a letter which I received from the treasurer of another nationally-known corporation on this very point. In referring to his company's sale of some of its properties, he writes:

> 'We believe that this deal on the whole is about as favorable as anyone has made, and the results to us (considering the tax saving through deduction for rental) puts the deal clear out of comparison with debenture financing.'

"He is referring to the fact that the entire rental payments are wholly deductible expenses, whereas payments on debentures include principal reductions. Then too, there is the question whether it is worth something to a company to minimize its borrowings. As you well know, financing through the sale and lease of real estate does not reflect any loan in one's financial statement, nor does it impair or reduce the company's normal borrowing capacity."

Since insurance companies are restricted in their investment policies by the statutes of the various states, there is necessarily great variation in the interest of the companies in sell-lease transactions. In some states, the enabling legislation has been enacted so recently, that they have not given the matter much consideration; while, in other cases, the insurance companies have had considerable experience. Be-

Meet the Author

Mr. Levy is president of Mark Levy Realty Company, Chicago and former president of Chicago Real Estate Board, Cook County Real Estate Board, The Chicago Association of Commerce Real Estate and Loan Division, National Institute of Real Estate Brokers and Illinois Chapter of American Institute of Real Estate Appraisers.

He was treasurer of the National Association of Real Estate Boards and is a member of Chicago Real Estate Board, Real Estate Board of New York and Illinois Association of Real Estate Boards.

He has been engaged in the sale, leasing, and appraisal, and acting in advisory capacity in various forms of real estate investments for the past 40 years. He has sold over \$100,000,000 of real estate, has made leases in excess of \$500,000,000 and appraisals in excess of \$2,750,000,000.

low is a cross-section of the expression by institutional buyers of their interest in this trend:

1. "Our experience in these ventures has been very successful and has provided a satisfactory medium of investment for a small portion of our endowment."

2. "While this company has made some leases with renewal options, at lower rentals, I am not so sure that this is a very sound practice, especially if the original term is as long as 30 years. Some investors have given these options for long periods of years at actually nominal rentals. Under these circumstances, the investor buys the real estate, but at the same time he makes a contract in which he gives or sells for a very small consideration the benefits of ownership. I have an idea that institutional investors will find that this is not ultimately beneficial and that the practice will be modified."

Advantages Seen

3. "Many of the so-called real estate sales by national concerns of outstanding credit are in one sense not sales at all but another form of financing. Corporations have taken advantage of a favorable market by the transfer of title to properties on their books, subject to their taking back long-term net leases at rentals ranging upward from 5 per cent of the total amount involved and, in some cases, even at a lower rental. They have assured themselves of long-term occupancy at very low rentals by obtaining renewal options with a total life of up to 99 years."

4. "At present, we are inclined to limit our interest to offerings where we get the benefits and opportunities of equity ownership along with the risks, such as in the case where we have agreed to pay $525,000 for a well-located retail property under a 20-year net lease to a strong, national concern where the lease contains a percentage clause and no options of renewals or repurchase."

5. "It seems to us these repurchase options on the part of the lessee give all of the breaks in favor of the seller-lessee, and we have not agreed to this type of deal."

6. "We are of the opinion that this is not the time to buy real estate and are rather independent about meeting competition. So far as the trend is concerned, some of the companies who very aggressively went after chain store leased properties in the 100 per cent retail areas offering a return as low as 5 per cent seem now to be backing away from that yield, and we are not interested in anything regardless of credit or desirability of real estate that does not net us at least 5½ per cent including depreciation."

7. "The subject is one of very broad scope, and new to most people in our business, and is one about which much can be said."

8. "Due to the current high cost of construction and the existing competitive situation, investments under the purchase-lease program have become increasingly less desirable. We, therefore, intend to be more selective on future purchases."

9. "The insurance investment laws of our state were changed only a month ago whereby we are now able to purchase real estate for investment, and we have not as yet been able to make a study to determine whether or not we would be interested in this type of investment."

10. "Unfortunately, many companies have gotten the idea that they should not pay a rental of more than what they can borrow by issuing debentures, and it has been said that many companies are looking for a 100 per cent loan at a very low interest rate. This comes about because some of the corporations have insisted on an option to repurchase the property at stated times during the original period of the lease as well as during the renewal periods. These corporations must decide whether as a matter of company policy it is better to sell mortgage bonds against debenture bonds or preferred stock against common stock."

11. "I believe that two important factors which should be kept in mind in distinguishing a lease obligation from general obligations of a tenant corporation are the limited marketability of the obligation in lease form and, secondly, the effect of reorganization upon its rental obligations."

12. "There has been some active competition on the part of insurance companies, and they have gone to excessively low interest returns for long periods of time in my judgment and, in some of the cases, we have lost our opportunity to purchase."

13. "Our company has not adopted, as part of our investment program, the purchase of income properties. For this reason, we have not given the subject a thorough study."

Some Not Interested

14. "We are actively interested in purchasing real estate and a great many offerings have been made to us, most of which have little or no appeal. While the matter has been thoroughly discussed among our officers, our policies are not definite, except in one respect, and that is that we are not interested in the purchase of such deals as those you particularly describe. We are interested in purchasing real estate leased to good tenants for long terms, either single occupancy or multiple occupancy, but at the expiration of the lease term we would expect to be in a position to negotiate a renewal of the then market value of the real estate, and would be unwilling at this time to give any option for long term renewals at a small fractional part of the original rent. . . . We have not sought, nor will we in the future seek to deal directly with chain corporations or other corporations who might wish to sell commercial paper under the pretense of selling us real estate. We were offered one property where it was proposed that we would be tied up under options for 250 years at returns not exceeding one per cent of our investment. Even irredeemable ground rents yield a better return. We are not sympathetic to the trend."

15. "This company has not determined on any policy in connection with the purchase of real estate for investment, and we are not thoroughly familiar with the type of leases made by other companies on properties which they have purchased."

16. "This company has not as yet purchased any real estate for lease. The only real estate we own at this time is our home office building property."

17. "We have not purchased any real estate for investment."

18. "We have not made any purchases of industrial properties and have no commitments to do so."

19. "We have made only one investment in real estate. We are not likely to make any more. We are not making any of these for investment but for future profit."

20. "Canadian Insurance Act prevents companies from owning real estate, other than such as may be required for own purposes."

Virginia, in 1942, was the first state in which insurance companies were actually permitted by statute to purchase real estate for investment purposes. Some nine other states plus the District of Columbia were authorized by the absence of any restrictions in their laws. However, very little if any real estate was purchased by insurance companies, except for their own use, prior to this time in these states. The rush of laws permitting companies to buy real property started in 1945, and has continued up to the present sessions of the state legislatures. Following is a tabulation of the states of the United States, showing the status of state legislation now as far as the author knows.

Status in Each State of Insurance Company Purchases of Real Estate for Investment

Alabama	Authorized by absence of restrictions.
Arizona	Prohibited.
Arkansas	General authorization (1947).
California	General authorization (1945).
Colorado	General authorization (1947).
Connecticut	"Connecticut type" statute (1945). Statute specifically authorizing investment of a certain percentage (5%) of assets in investments not otherwise legal.
Delaware	"Connecticut type" statute (1947). Authorized for Foreign Companies only (1947).
D.C.	Authorized by absence of restrictions. Domestic companies narrowly restricted.
Florida	Authorized by absence of restrictions.
Georgia	Authorization for leasing (1947). Possibly other real estate investments permitted upon approval of Department.
Idaho	Prohibited.
Illinois	"Connecticut type" statute (1947). Allows insurance companies to put 5% of their admitted assets in *any* investment that had not been previously authorized, and subject to approval of Director of Insurance.
Indiana	Authorization for leasing (1945).
Iowa	General authorization (1947).
Kansas	General authorization (1947).
Kentucky	Prohibited.
Louisiana	Authorized for Foreign Companies only (1946).
Maine	Authorized by absence of restrictions.
Maryland	General authorization (1947).
Massachusetts	General authorization (1947).
Michigan	Prohibited.
Minnesota	General authorization (1947).
Mississippi	General authorization (1946).
Missouri	Prohibited — Legislation pending.
Montana	Prohibited.
Nebraska	Authorization for leasing (1945).
Nevada	Authorized by absence of restrictions — Domestic companies narrowly restricted.
New Hampshire	Authorized by absence of restrictions — Domestic companies narrowly restricted.
New Jersey	General authorization (1945).
New Mexico	General authorization (1947).
New York	General authorization (1946).
North Carolina	Authorization for leasing (1945). Possibly other real estate investments permitted upon approval of Department.
North Dakota	"Connecticut type" statute (1947).
Ohio	Authorized by absence of restrictions — Domestic companies narrowly restricted.
Oklahoma	Prohibited.
Oregon	"Connecticut type" statute (1947) — Percentage is 7½% not 5%.
Pennsylvania	General authorization (1947).
Rhode Island	General authorization (1947).
South Carolina	Authorized by absence of restrictions.
South Dakota	Prohibited.
Tennessee	General authorization (1947).
Texas	Prohibited.
Utah	General authorization (1947).
Vermont	Authorization for leasing (1947).
Virginia	First state (1942) — Authorization for leasing.
Washington	"Connecticut type" statute (1947).
West Virginia	Authorized by absence of restrictions.
Wisconsin	"Connecticut type" statute (1945).
Wyoming	General authorization (1947)
Canada	Not permitted.

The photograph shown on this page covers the F. W. Woolworth Co. store at State and Washington Streets, Chicago, which illustrates the type of investments being made by insurance companies.

This property was purchased in July, 1946, by the Connecticut Mutual Life Insurance Company for $5,440,000. The property purchased comprises 23,830 sq. ft. of land owned in fee and is subject to a 90-year lease to F. W. Woolworth Co. ending December 30, 2017. The improvements consist of a 4- and 10-story and basement mercantile building with two sub-basements of fireproof construction. The net rentals are as follows:

$250,000 yearly rental ending December 31, 1947, netting 4.59% return for 2 years.

$260,000 yearly rental from January 1, 1948 to December 31, 1957, netting 4.78% return for 10 years.

$275,000 yearly rental from January 1, 1958 to December 31, 1977, netting 5.05% return for 20 years.

$285,000 yearly rental from January 1, 1978 to December 30, 2017, netting 5.24% return for 40 years.

Incidentally, approximately 150,000 people pass this site during a 12-hour period. As far as the author knows, this is Woolworth's number one store in volume.

No general formula can be given for the terms of these transactions. Each transaction is a special case, worked out in special detail. However, the author has gathered the statement of requirements, or desired terms, on transactions of this kind from various sources. Some of the terms are not being disclosed.

Connecticut Mutual Life Insurance Company advises that they aim to purchase retail store property in the 100 per cent area of good-sized cities, leased to outstanding chain store organizations for term of not less than 30 years, to show them an absolutely net return of at least 5 per cent—or better. They are not attempting to amortize the purchase price during the term of the lease. They are attempting to apply 1 per cent out of the net rental each year toward the reduction in book value, the balance of the rental being considered as current income. They feel that by buying this type of property in 100 per cent locations, there should be a substantial value in the investment upon the termination of the lease and, in fact, it should be considerably in excess of the amount of their reduced book value at that time. This company has purchased 16 properties at a total cost of $13,531,468, and they have commitments on 3 properties at a total cost of $1,790,200. These include 8 properties in New York state, 8 properties in California, and one each in Illinois, Connecticut, and Ohio. Some of the tenants in the properties purchased include F. W. Woolworth Co., J. J. Newberry Co., Whelan Drug Co., McCrory Stores Corp., New York Lerner Co., and Hearn Department Store, Inc.

Aetna Life Insurance Company has bought investment real estate for a total of $11,000,000 and has commitments pending for additional $6,700,000. Retail property leases are generally for 30 years. The net return in each case will depend upon: 1) the amount of net rental provided by lease; and 2) the method of write-off of the principal investment. A lease might be made for a 30-year term at net annual rental of 5.38 per cent of the principal amount involved, and if the investor charges off this entire investment in the term of the lease, the net return would obviously be 3½ per cent per annum. On the other hand, should the investor decide he could afford to have a substantial portion of the investment left in the property at the end of the 30-year term, he could write that property down to approximately 20 per cent of its cost and credit himself with 4 per cent per annum return.

Connecticut General Life Insurance Company states that its goal is to obtain a higher return on prudent investments in the direct ownership of real estate than the generally prevailing interest rate on mortgages on comparable properties. On that basis, they should get a return of at least 4 per cent to 4½ per cent plus adequate depreciation or amortization of the investment. They recently purchased the land 80x 144 ft., being a leased fee, under the Goldblatt Bros. State Street Department Store in Chicago, lease extending to April 30, 2006 at a net annual ground rent of $54,000, at a purchase price of $1,080,000, which will give the investor 5 per cent return.

The Metropolitan Life Insurance Company has made purchases totalling about $9,000,000 and commitments

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about $8,000,000 more. Under New York law they have to get 4 per cent and 2 per cent for depreciation. That includes the entire purchase price; so, of course, they canot buy a Woolworth or Penney property at 5 per cent.

The New York Life Insurance Company is committed for approximately $20,000,000 and is working on many others. However, this company is not rushing into these investments. All leases are on net basis and provide that during the first lease term the rental shall be sufficient to retire the costs of building and land with a rate of return over the period of the lease to the owner. Renewal charges are generally figured at a very low rental rate, maybe as low as 1 per cent to 2 per cent of the original investment.

Penn Mutual Life Insurance Company states that the terms of lease would depend upon 1) the credit of the company, 2) the type of real estate, and 3) the renewal options given to the tenant beyond the original lease term.

The Mutual Life Insurance Company of New York has purchases and commitments for the acquisition of 9 properties in California, 3 properties in New Jersey, 6 properties in the State of New York, and one property in Oregon. Leases are made on net or carefree basis, with the tenant paying all costs of operation, maintenance, etc., and with cash payment sufficient for amortization of the total investment during the primary term of the lease. After the primary term, the lessee has the right of renewal at nominal rental or repurchase.

Prudential Insurance Company of America advises that the total amount committed for is considerable, but that cancellations have been heavy. No definite pattern is followed; no two deals are identical. The net rental which they receive varies from 5 per cent to 9½ per cent of the purchase price; the term of years from as low as 10 to as high as 30.

The Equitable Life Assurance Society states that on industrial type of real estate, the net rents run all the way from 6 per cent to 8 per cent on leases from 25 to 30 years.

Life Insurance Company of Virginia has made total investments of approximately $8,000,000. The net yields are from 3½ per cent to 4½ per cent. Obviously, the stronger the credit the lower the net yield. All purchases are made on a pure net basis. The seller is required to pay all costs incident to transferring of title, including the title policy in company satisfactory to them, costs of survey, revenue stamps, commissions, etc. All leases provide that in addition to rental the lessee pays all maintenance costs, taxes, insurance premiums, etc., during the life of the lease. There are repurchase options in some transactions. These are limited to definite periods and dates, beginning not earlier than the expiration of the 10th year and usually effective at 5 year intervals. In the event of a repurchase option, they provide for a substantial premium, based on some percentage of the original cost of the property. The rental during the renewal periods usually runs from 1 per cent to 3 per cent of the original cost of the property.

Lincoln National Life Insurance Company requires a primary term of not more than 30 years. The rental should be such as to enable them to recover their entire investment during this period and obtain a yield on the invested capital ranging from 5 per cent to as low as 3½ per cent. They have granted renewal options after the expiration of the primary period, either on an annual basis or in 5-year periods, and during the secondary period they have annual rentals predicated upon 2 per cent of the original investment.

This company has purchased commercial and industrial properties, and in most cases the leases were written for primary term of 10 or 15 years with a rental sufficient to completely amortize the investment during that period and yield interest return of 4 per cent or better.

The Teachers Insurance & Annuity Association of America is allowed to buy real estate in but two states (New York and Maryland). Their field is very limited. Any single purchase they make cannot exceed ½ of 1 per cent of their admitted assets. Their total purchases cannot exceed 3 per cent of their admitted assets.

The Union Central Life Insurance Company advised they have not had any city real estate for some time.

See the December issue of The Mortgage Banker *for the final installment of Mr. Levy's article.* *In it he goes into some of the transactions which universities, chain stores and other organizations have made. He also tells what he thinks the future of this investment trend will be and what he sees ahead for interest rates.*

While we're on the subject Mr. Levy has under examination in this article, consider what Paul Bestor, vice president of Prudential, had to say at the American Life Convention meeting the week after ours. Prices of commercial and industrial real estate have been too high in the last few months to be attractive as investments, he declared. He pointed out that life companies are turning more and more from purchases of first mortgage loans to the direct purchase of income property.

In the case of many of the larger companies, he said, the ratio of mortgage investments to admitted assets has decreased from in the neighborhood of 50 per cent to less than 15 per cent.